Rating Rationale

Agson Global Pvt. Ltd.

20 June 2019

Brickwork Ratings revises the long term rating and short term rating for the Bank Loan Facilities of ₹ 1421.85 Crores of Agson Global Pvt Ltd ('AGPL' or 'the Company') and places it under 'Ratings under Watch with Developing Implications'.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Dec 2018)	Present
Fund based Cash Credit Term Loans	**1315.00 26.85**	**1315.00 26.85**	**Long Term**	**BWR A (Pronounced as BWR Single A) (Outlook Stable)**	**BWR A- (Pronounced as BWR Single A Minus) (Rating under Watch with Developing Implications) (Downgrade)**
Non Fund Based BG/LC	**80.00**	**80.00**	**Short Term**	**BWR A2+ (Pronounced as BWR A Two Plus)**	**BWR A2 (Pronounced as BWR A Two) (Rating under Watch with Developing Implications) (Downgrade)**
Total	**1421.85**	**1421.85**	**INR One Thousand Four Hundred and Twenty One Crores and Eighty Five Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings: Revised to BWR A-/A2 with change in outlook to 'Rating under Watch with Developing Implications'

BWR has essentially relied upon the Company's audited financials upto FY18, self certified provisional financials for FY19, projected financials for FY20, publicly available information and clarifications provided by the Company and its lenders.

Rationale:

The revision in ratings of the company reflects deterioration in its liquidity profile on account of additional funds outflow owing to GST implementation, closure of LOU facility during 2018 and closure/surrender of limits of its garment division during FY19. This resulted in full utilization of its working capital limits as on date. AGPL requested for additional working capital limits which is under process of sanction by its consortium lenders. Thus, a delay in getting additional working capital funds is likely to further deteriorate its liquidity position. The management also submitted self-certified financials for FY19 which indicate a marginal decline in net profit margins due to additional interest cost burden. Inventory levels increased by around Rs. 156 Crs in FY19 (provisional) with marginal sales growth in the almond division. High interest cost burden has also resulted in deterioration of Interest Service Coverage ratio (ISCR) to 1.68x in FY19 (provisional).

However, the ratings continue to factor in the strength from promoters' extensive experience in the almond trading business. The company continues to remain one of the leading players in the import of almonds during FY19. AGPL has imprd its overall turnover levels marginally, despite the closure of the garment division during FY19. Gearing ratio remains moderate with low long term debt borrowings. BWR also notes that AGPL has installed new sortex equipment in the almond processing unit and added additional capacities for menthol crystals/derivatives as a backward integration project during FY19 which is likely to improve its operational efficiencies and will add up to its profitability over the medium term.

Rating Outlook: ***Rating Watch with Developing Implications***

The Company had submitted a proposal for enhancement in their existing working capital limits during Dec 2018 which was expected to be sanctioned during Q4FY19. Any further delay in obtaining sanction of the additional limits from all its consortium lenders may cause further stress on the liquidity position of the company.

Liquidity position of the Company:

Liquidity: Stretched - The operations of AGPL being highly working capital intensive, its liquidity position is characterised by highly utilised bank limits and modest cash balance. To tide over its temporary liquidity crunch, the company has sought additional working capital limits from its consortium of lenders which is under process of sanction. The tightened liquidity position has been contributed by an increase in inventory levels in FY19 (provisional) by around Rs. 156 Cr with marginal growth in sales from Almond division, and decline in Cash & Cash to Rs. 8.48 Cr in FY19 (Provisional). However Current Ratio remains comfortable at 1.34x in FY18.

Rating Sensitivities:

Owing to the closure of LOU/Buyers credit facility and implementation of GST, the Company faced the need for additional working capital, which resulted in full utilization in its working capital limits during FY19. The ability of the consortium lenders to effect enhancement in working capital limits within the next 1 month remains a key rating sensitivity. Also, the ability of the Company to increase its turnover growth by at least 10%, increase its EBITDA by 15% and maintain its inventory days within 180 days in FY20 would remain the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

Experienced promoters with established track record: AGPL is promoted by Mr. Apresh Garg, Managing Director, who is a first generation entrepreneur, having experience of over 16 years in this business. The Company had a market share of more than 20% (in terms of volume) in almond imports from USA during FY18, which demonstrates its ability to be one of the larger players in the almond business.

Sustainability in its turnover levels: There is a marginal improvement in turnover levels from Rs. 3294.81 Cr to Rs. 3333.50 Cr during FY19 (provisional), despite complete closure of its garment division. Almond division contributes majority share in its turnover levels. For Logistics division, AGPL has also leased out its 3rd warehouse and expects to close the deal for leasing out its 4th warehouse, which will generate additional revenue during the current financial year.

Capex incurred during FY19: AGPL had set up a fully automatic laser sortex almond processing unit with shelling capacity of 100 MT per day. It has been set up in the new premises (adjacent to its logistics park) and has become functional since Feb 2019. AGPL also added additional capacities of menthol crystals/derivatives in its new premises (adjacent to its logistics park) as backward integration for manufacturing DL Menthol. AGPL is using basic mineral based M-Cresol & thymol for manufacturing DL menthol which will enhance its profitability over the medium term.

Credit Risks:

Moderate profitability margins & interest coverage ratio: Net profit margins further declined on account of additional interest costs burden during FY19 (provisional). AGPL reported majority of its operating revenues from the low value added business viz. almond trade which generates low profit margins. Further, ISCR has declined from 1.80x in FY18 to 1.68x in FY19 (provisional).

Working capital intensive nature of operations: Its operations remain working capital intensive on account of high inventory levels reported during FY19. Inventory has gone up by almost Rs. 156 Cr which resulted in higher utilization in its working capital limits. AGPL needs to import almond in the 3rd quarter of the financial year and maintain significant inventory in order to cater its domestic market throughout the year.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

About the Company

AGPL was initially incorporated as Shree Global Impex P. Ltd. in May 1997 by Mr. Apresh Garg. It was renamed as Agson Global Pvt Ltd (AGPL) in 2008. AGPL is engaged into three major business activities i.e. Almond Division, Menthol Division & Logistics Park. Almond is one of its major segments which contributes the majority of its total turnover achieved in FY19. Menthol Division manufactures crystalline menthol, & its various derivatives. Logistics division is located at Kundli Industrial Area (Delhi – Chandigarh Highway), having total construct area of 55627 sq. mtrs.

AGPL closed its garment division during FY19, as it has not been able to achieve justified internal rate of return; generating low margins with low value addition. Currently, AGPL had adjusted the outstanding of Garments Division with surrender/cancellation of the sanctioned Fund Based Limits of Rs. 125 Crore.

Company Financial Performance

Key Parameters	**Units**	**2019**	**2018**
Result Type		**Provisional**	**Audited**
Operating Revenue	Rs. Crores	3333.50	3294.81
EBITDA	Rs. Crores	199.96	192.22
PAT	Rs. Crores	44.74	46.96
Tangible Net worth	Rs. Crores	1197.34	1183.76
Total Debt/Tangible Net worth	Times	1.98	2.11
ISCR	Times	1.68	1.80

Rating History for the last three years

Facility	Current Rating (Year 2019)			Rating History		
	Type	**Amount (Rs. Crs)**	**Rating**	**24 Dec 2018**	**03 Jan 2018**	**08 Nov 2016**
Fund Based Term Loans Cash Credit	Long Term	26.85 1315.00	BWR A - (BWR Single A Minus) (Rating under Watch with Developing Implications) (Downgrade)	BWR A (BWR Single A) (Stable) (Reaffirmed)	BWR A (BWR Single A) (Stable) (Upgrade)	BWR A- (BWR A Minus) (Stable)
Non Fund Based BG/LC	Short Term	80.00	BWR A2 (BWR A Two) (Rating under Watch with Developing Implications) (Downgrade)	BWR A2+ (BWR A2 Plus) (Reaffirmed)	BWR A2+ (BWR A2 Plus) (Reaffirmed)	BWR A2+ (BWR A2 Plus)
Total		**1421.85**	**INR One Thousand Four Hundred and Twenty One Crores and Eighty Five Lakhs Only**			

Status of non-cooperation with previous CRA - N.A.
Any other information: Nil

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Short Term Debt**

Analytical Contacts	**Investor Contacts**

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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